

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01
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R 282100Z JAN 77

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 3886

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY GEORGETOWN

AMEMBASSY LONDON

AMEMBASSY NASSAU

AMEMBASSY PORT

S E C R E T SECTION 1 OF 2 KINGSTON 0453

E.O. 11652: GDS

TAGS: EFIN, ECON, EAID, PGOV, PINT, PFOR, JM, IMF

SUBJECT: MANLEY'S AUSTERITY ADDRESS: COMMENT

REFERENCE: KINGSTON 0327

1. SUMMARY: WE HAVE REVIEWED PRIME MINISTER MANLEY'S
JANUARY 19 " AUSTERITY ADDRESS" FROM BOTH ECONOMIC AND POLI-
TICAL POINTS OF VIEW. WHILE THE NEW GOVERNMENT HAS DONE MUCH
OF WHAT IT CAN (SHORT OF DEVALUATION AND TURNING TO THE
INTERNATIONAL MONETARY FUND) IN THE BUDGET AND FOREIGN EX-
CHANGE AREAS, IT INEVITABLY MUST -- EVEN IN THE MOST FAVORABLE
OF CIRCUMSTANCES (INCLUDING DEBT RESCHEDULING AND ASSUMING
ECONOMIC LOGIC STILL GOVERNS IN THE FINAL ANALYSIS) -- SEEK
A LARGE MEASURE OF FOREIGN HELP. IN POLITICAL TERMS, THE
ADDRESS WAS A CLEAR SIGNAL THAT JAMAICA NOW FACES SUB-
STANTIAL POLITICAL AND SOCIAL CHANGE REQUIRING NOT
ONLY STRINGENT DIRECTION OF ECONOMIC ACTIVITY, BUT

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POSSIBLY ALSO CURTAILMENT OF FREEDOM OF INFOR-
MATION, OF MOVEMENT, AND OF USE OF PROPERTY. THE
STATEMENT ALSO WAS A WARNING TO JAMAICA'S UPPER AND
MIDDLE CLASSES THAT THE MAJOR BURDEN OF AUSTERITY
PROGRAM WOULD FALL ON THEM. THE ASSOCIATED POLITICAL
MESSAGE WAS SHARPENED BY THE PRIME MINISTER'S
RELiance ON A SARCASTIC, HECTORING STYLE OF DELIVERY.

END SUMMARY.

2. DIRECT ECONOMIC CONSEQUENCES: THE AUSTERITY PROGRAM INCLUDED MOST OF THE MEASURES REALISTICALLY AVAILABLE TO THE JAMAICAN GOVERNMENT WITHIN THE POLITICAL CONTEXT OF THE MANLEY ADMINISTRATION. THE BASIC PROBLEMS WERE CONFRONTED WITHIN THIS CONTEXT. THE BUDGET DEFICIT IS TO BE REDUCED BY INCREASED TAXATION OF THE MIDDLE AND UPPER CLASSES, RATHER THAN THROUGH SIGNIFICANT CUTS IN SPENDING. THE BALANCE OF PAYMENTS AND CAPITAL FLIGHT PROBLEMS ARE TO BE SOLVED BY TIGHT IMPORT AND EXCHANGE CONTROLS RATHER THAN THROUGH DEVALUATION. IN SHORT, MANLEY HAS OPTED FOR A "SUPPLY CONTROL" RATHER THAN A "DEMAND CONTROL" SOLUTION. TO HAVE DONE OTHERWISE WOULD HAVE REQUIRED ABANDONMENT OF SOME OF THE WPA STYLE "PEOPLE-ORIENTED" PROGRAMS AND A GREATER SHARE OF THE BURDEN FOR THE JAMAICAN POOR, THE PNP'S SUPPORT BASE. IT IS OUR VIEW, AND THAT OF MOST LOCAL OBSERVERS, THAT THE ROUTE MANLEY HAS CHOSEN WILL FAIL UNLESS HE OBTAINS MAJOR EXTERNAL ASSISTANCE. SPECIFICALLY:

A. BALANCE OF PAYMENTS: FOREIGN EXCHANGE AND IMPORT RESTRICTIONS ARE LIKELY TO FALL FAR SHORT OF THOSE WHICH WOULD BE REQUIRED TO ACHIEVE A BALANCE OF PAYMENTS. SINCE JAMAICA HAS ESSENTIALLY NO EXCHANGE RESERVES AND HAS A PATTERN OF ANNUAL TRADE DEFICITS, THIS IMPLIES OUTSIDE ASSISTANCE, POSSIBLE RESCHEDULING OF EXISTING COMMITMENTS AND/OR DEFAULT.

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ONE BANK OF JAMAICA OFFICIAL ESTIMATES THAT, EVEN IF ALL RESTRICTIONS OPERATE AT COMPLETE EFFECTIVENESS, THE FOREIGN EXCHANGE SHORTFALL FOR 1977 WILL EXCEED 150 MILLION DOLLARS. IN FACT, THE REGULATIONS ARE MORE LIKELY TO BE IMPLEMENTED WITH SUBSTANTIAL INEFFICIENCY GIVEN JAMAICA'S BUREAUCRATIC AND SKILLED MANPOWER DEFICIENCIES.

B. THE BUDGET: THE PROSPECTS FOR INCREASED REVENUES ARE EQUALLY POOR. THE IMPORT RESTRICTIONS AND A NUMBER OF OTHER FACTORS DISCUSSED BELOW ARE CERTAIN TO SLOW DOWN ECONOMIC ACTIVITY FURTHER AND THUS REDUCE TAX REVENUES THEREBY OFFSETTING ANTICIPATED INCREASES IN REVENUES FROM NEW TAX MEASURES. ACCORDINGLY, DEFICIT SPENDING CAN BE EXPECTED TO CONTINUE, ONLY MODERATELY REDUCED FROM 1976 RATIOS. (IN 1976 OVER 60 PERCENT OF THE BUDGET REPRESENTED DEFICIT SPENDING.)

C. INFLATION: CONTINUED GOVERNMENT DEFICIT SPENDING COUPLED WITH A SUBSTANTIAL REDUCTION IN IMPORTS SHOULD GIVE RISE TO SEVERE DEMAND INFLATIONARY PRESSURES. THE BANKING SYSTEM CURRENTLY IS ESTABLISHING RECORD-BREAKING LIQUIDITY RATIOS WHICH WILL GREATLY EXACERBATE THE PROBLEM. PRICE CONTROLS ARE LIKELY TO GO ONLY PART WAY IN MEETING THE PROBLEM.

D. PRODUCTION: PRICE CONTROLS, SOMEWHAT LESS STRINGENT WAGE CONTROLS, IMPORT RESTRICTIONS AND A GENERAL INCREASE IN THE BUREAUCRATIC COST OF DOING BUSINESS WILL PROBABLY REDUCE PRODUCTIVITY IN THE INDUSTRIAL SECTOR. IN SOME AREAS, AGRICULTURAL PRODUCTIVITY CAN BE EXPECTED TO IMPROVE AS A RESULT OF INCREASED DEMAND IN THE FACE OF IMPORT RESTRICTIONS AND MAJOR DEVELOPMENT PLANS. WILL, DEDICATION, AND THE ABILITY TO INSTILL DISCIPLINE,

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TOGETHER WITH THE CAPACITY OF THE MARKETING SYSTEM WILL BE IMPORTANT, BUT ARE UNLIKELY TO OFFSET THE NEGATIVE EFFECTS CAUSED BY THE MASSIVE EMIGRATION OF THE MIDDLE CLASS.

E. UNEMPLOYMENT: WITH A DROP IN INDUSTRIAL PRODUCTION AND DISLOCATIONS CAUSED BY IMPORT AND FOREIGN EXCHANGE RESTRICTIONS, AN INCREASE IN UNEMPLOYMENT FROM THE CURRENT ESTIMATED LEVEL OF 27 PERCENT CAN BE EXPECTED.

F. LABOR UNREST: THE SUCCESS OF THE PRIME MINISTER'S PROGRAM IS CONTINGENT ON THE ACCEPTANCE OF IT BY JAMAICA'S ACTIVE TRADE UNION MOVEMENT. THIS WILL BE DIFFICULT TO OBTAIN IN THE FACE OF WAGE RESTRAINTS AND AUSTERITIES AS WELL AS INFLATION AND

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INCREASED COST OF LIVING. THE UNIONS WILL PROVIDE
THE GOVERNMENT WITH A FORMIDABLE ADVERSARY AND,
WHEN THE AUSTERITY PINCH BEGINS TO BE FELT DEEPLY,
THEY MAY WELL REBEL THEREBY DECREASING PRODUCTIVITY
AND POSSIBLY BRINGING ON INCREASED SUPPRESSION.

3. ON BALANCE, WE MUST CONCLUDE THAT THE ECONOMIC
PROGRAM AS ANNOUNCED BY THE PRIME MINISTER CAN ONLY
DO PART OF THE JOB, AND THAT WITHIN THE IMMEDIATE
FUTURE THE GOJ WILL HAVE TO FIND SIGNIFICANT OUTSIDE
ASSISTANCE OR REVERT TO A MORE SUBSISTENCE-ORIENTED
ECONOMY. ASSUMING THE GOVERNMENT DOES SEEK MAJOR
EXTERNAL ASSISTANCE, WHERE WILL IT LOOK? INSO FAR
AS WESTERN SOURCES ARE CONCERNED, A GOOD HIT FROM THE
IMF SEEMS TO BE THE PRE-REQUISITE. THE GOJ'S MEDIA
POLITICAL CAMPAIGN AGAINST THE IMF IN RECENT WEEKS,
AS WELL AS PRIVATE STATEMENTS TO US BY MANY GOJ
OFFICIALS, MAKE CLEAR THE GOJ HAS REJECTED, AT LEAST
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FOR THE IMMEDIATE FUTURE, AN IMF PACKAGE OR ANY PRO-
GRAM RELATED TO THE IMF. NEVERTHELESS, AS WE REPORTED
IN THE REFERENCED MESSAGE, THE PRIME MINISTER REMINDED
HIS LISTENERS THAT THE IMF "USUALLY" REQUIRES A
DEVALUATION, CUTS IN PUBLIC EXPENDITURE AND CERTAIN
KINDS OF EXCHANGE POLICIES. HE THEN ADDED THAT THE
IMF "MIGHT" NOT BE ABLE TO APPROVE THE JAMAICAN AUS-
TERITY PROGRAM. HIS USE OF THE CONDITIONAL SUGGESTS
A HOPE, HOWEVER REMOTE, THE IMF MIGHT FIND THE PRO-
GRAM ADEQUATE -- AT LEAST INsofar AS EFFORTS AT BUDGET
BALANCING AND TIGHTER CONTROL OVER THE USES OF
FOREIGN EXCHANGE ARE CONCERNED -- IN SPITE OF CURRENT
DECISION NOT TO DEVALUE. OTHER STATEMENTS IN PRIVATE
TO US BY VARIOUS SENIOR GOJ OFFICIALS ALSO SUGGEST

FUTURE RECONSIDERATION OF IMF ASSISTANCE -- PERHAPS
AT A TIME WHEN MANLEY CAN COSMETIZE SUCH ASSISTANCE
AS BEING ON "JAMAICAN TERMS."

4. IT ALSO MAY BE THAT MANLEY HAS HOPES OF MAJOR
TRADE AND/OR ASSISTANCE FROM THE EASTERN BLOC. CON-
VENTIONAL WISDOM HAS HELD THAT THE COST TO THE
SOVIET UNION OF ITS SUPPORT FOR CUBA WOULD MAKE
SIGNIFICANT SUBSIDY OF JAMAICA MOST UNLIKELY. HOW-
EVER, IF THE PRIME MINISTER UNDERSTANDS THE GRAVITY
OF HIS COUNTRY'S PRESENT SITUATION AND IS WILLING
NEITHER TO SEEK AID THROUGH THE IMF OR RESCHEDULE
DEBTS, IT MAY BE THAT HE HAS SOME REASON TO ANTI-
CIPATE SOME DEMONSTRATION OF GENEROSITY FROM THE
SOVIET UNION AND/OR ITS SOCIALIST FRIENDS.
JAMAICAN INTEREST IN SOME FORM OF RELATION-
SHIP WITH COMECON SUGGESTS JAMAICA DOES DESIRE CLOSER
ECONOMIC TIES WITH THE SOCIALIST COUNTRIES.

5. FINALLY, MANLEY APPARENTLY ALSO HAS EXPECTATIONS
OF INCREASED ASSISTANCE FROM THE U.S., AND FROM
SOME OF THE OPEC GOVERNMENTS, ESPECIALLY VENEZUELA.
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6. HOWEVER THE PROBLEM OF FOREIGN DEBTS AND FOREIGN
EXCHANGE NEEDS ARE MET, IT SEEMS CERTAIN THAT THE
MANY NEW AUSTERITY MEASURES AND PROGRAMS WILL REQUIRE
AN INCREASE IN THE JAMAICAN BUREAUCRACY OR GREATER
EFFICEINCY. GIVEN THE PRIME MINISTER'S CRY FOR IN-
CREASED PRODUCTION, THE PROSPECT OF MORE GOVERNMENT
SERVANTS, NONE ADDING TO THE GNP, SEEMS ANOMALOUS.
IMPLEMENTATION OF THE NEW MEASURES ALSO WILL INCREASE
THE SCOPE FOR BOTH CORRUPTION AND THE DISPENSATION OF
PATRONAGE.

7. THE JANUARY 19 ADDRESS WAS OVERWHELMINGLY
POLITICAL IN CHARACTER. MANLEY TOLD JAMAICANS THEY
HAD BEEN VICTIMIZED BY THEIR OWN UPPER AND MIDDLE
CLASSES, AND THAT VERY SUBSTANTIAL POLITICAL AND
SOCIAL CHANGES LIE AHEAD. MANY OF THE NEW ECONOMIC
MEASURES, WHILE OSTENSIBLY DIRECTED AT LAUDABLE
ECONOMIC ENDS, INTENSIFY CLASS ANIMOSITIES AND
CLEARLY ARE DIRECTED AT SOCIAL CHANGE MORE THAN
ECONOMIC RECOVERY. MOREOVER, HIS REFERENCES TO
CONTROL OF THE MEDIA AND TO ACQUISITION OF PROPERTY,
AS WELL AS THE VERY EFFECTIVE LIMITS PLACED ON
MOVEMENT BY THE NEW EXCHANGE CONTROL MEASURES,
INDICATE A LESS THAN TENDER REGARD FOR TRADITIONAL
JAMAICAN FREEDOMS. MUCH OF THIS CONCLUSION DERIVES

NOT FROM A READING OF THE OFFICIAL TEXT OF THE PRIME MINISTER'S ADDRESS, BUT RATHER FROM HIS DEPARTURES FROM THAT TEXT AND FROM HIS HECTORING TONE -- AS IF HE WERE SEEKING TO BULLY ANYONE WHO MIGHT WISH TO QUESTION HIS REMARKS. HIS FREQUENT ASIDES WERE TINGED WITH SARCASM, PARTICULARLY AS HE REFERRED (WITHOUT MENTIONING NAMES) TO CRITICAL NEWSPAPERS, AND COLUMNISTS. THE PERFORMANCE SUGGESTED THAT, HOWEVER MUCH THE MANLEY GOVERNMENT MAY BE COMMITTED TO SOLVING JAMAICA'S ECONOMIC PROBLEMS AND TO
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ESTABLISHING A MORE EQUITABLE DISTRIBUTION OF ITS WEALTH, IT ALSO IS MOTIVATED IN LARGE PART BY THE POLITICS OF REVENGE AND SOCIAL CHANGE. ONE COULD EASILY CONCLUDE MANLEY IS PREPARED TO USE THE ECONOMIC CRISIS AS AN EXCUSE AND DEVICE TO TRANSFORM THE JAMAICAN POLITY INTO THE "NEW JERUSALEM" HE HAS PROMISED SO OFTEN -- A DEMOCRATIC SOCIALIST AND EGALITARIAN PARADISE WITH NO ROOM FOR CRITICS, ELITISTS OR CAPITALISTIC PARASITES. INDEED, SOME OBSERVERS HERE SUGGEST THAT ECONOMIC RECOVERY IS A SECONDARY GOAL, AND THAT THE ECONOMIC CRISIS IS WELCOMED AS SPEEDING SOCIAL REVOLUTION. IF SUCH IS INDEED THE CASE, ASSUMPTIONS REGARDING ULTIMATE RECONSIDERATION OF IMF ASSISTANCE, AND OF APPEALS FOR HIGH-LEVEL ASSISTANCE FROM THE US AND OTHER TRADITIONAL WESTERN (READ "IMPERIALIST/CAPITALIST") SOURCES MAY BE ERRONEOUS.
GERARD

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Message Attributes

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Subject: MANLEY'S AUSTERITY ADDRESS: COMMENT
TAGS: PFOR, ECON, EAID, JM, IMF
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